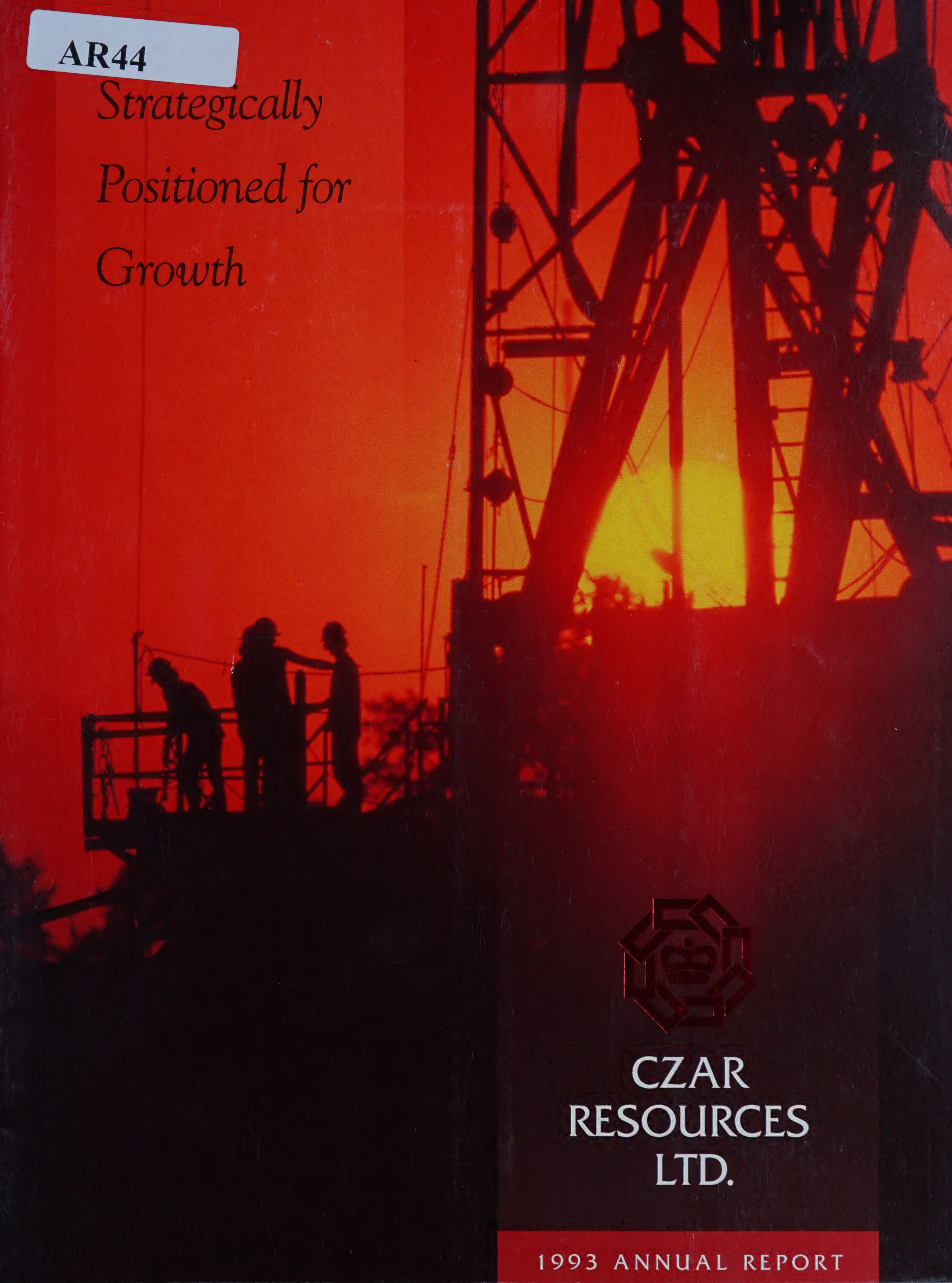
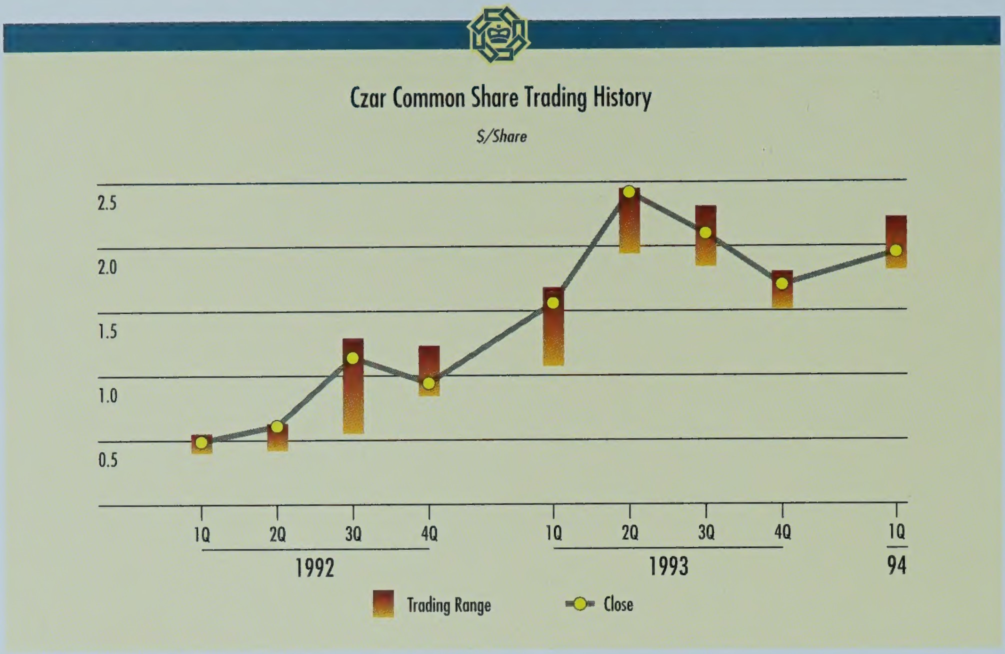


Strategically Positioned for Growth

CZAR RESOURCES LTD.

1993 ANNUAL REPORT



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ANNUAL MEETING

The Annual Meeting of the Shareholders of Czar Resources Ltd. will be held on June 2, 1994 at 2:00 p.m. in the Lakeview Rooms at the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta, Canada.

CORPORATE PROFILE

Czar Resources Ltd. is a Canadian energy company engaged in the exploration for and the development and production of natural gas reserves in Western Canada and the marketing of natural gas to purchasers throughout North America. Natural gas accounts for approximately 90 percent of the Company's total revenue.

Czar has developed a natural gas marketing strategy based on acquiring a portfolio of long-term and short-term natural gas contracts and providing gas to users in geographically diverse markets via secure transportation.

The Company explores for and develops natural gas reserves in the Western Canadian basin and will continue to expand its reserves base to meet existing contract obligations and explore in new areas where additional contracts and transportation may be obtained.

Czar's corporate objectives include demonstrating per share growth in earnings, funds flow and asset value and maintaining the Company's financial strength by controlling its financial leverage.

Czar's strategic association with two inter-related energy companies, Orbit Oil & Gas Ltd. and Canadian Frobisher Resources Ltd., helps further these goals. Through this joint venture arrangement, Czar attains the exploration and development strength it needs to continue capitalizing on opportunities within the industry.

This shared financial and managerial agreement maximizes the impact of Czar's exploration, acquisition and production activities and minimizes overhead costs and operating risk.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL

(thousands unless otherwise indicated)	1993	1992	1991
Total Revenue	$ 30,463	$ 23,722	$ 20,985
Funds Flow From Operations	$ 18,729	$ 11,466	$ 6,693
Funds Flow Per Share	$ 0.35	$ 0.31	$ 0.18
Net Earnings (Loss)	$ 9,504	$ 3,701	$ (387)
Net Earnings (Loss) Per Share	$ 0.18	$ 0.10	$ (0.01)
Capital Expenditures	$ 18,872	$ 5,974	$ 9,368
Total Assets	$ 85,300	$ 71,006	$ 65,375
Common Shares Outstanding			
Average	53,184	36,716	36,331
At Year End	63,987	43,827	36,445

OPERATING

Production (before royalties)			
Natural gas (BCF)	17.0	16.4	16.1
Average daily production (MMCF/D)	46.5	45.0	44.2
Crude oil and natural gas liquids (MSTB)	177	134	106
Average daily production (BBLS/D)	484	366	291

DRILLING ACTIVITY

Gas Completions	7	5	9
Oil Completions	14	1	0
Dry and Abandoned	9	1	4
Total Wells	30	7	13

LAND

Undeveloped Land Holdings (net acres)			
British Columbia	85,027	81,879	89,762
Alberta	58,517	55,459	60,151
Saskatchewan	6,688	8,965	5,218
Total acres	150,232	146,303	155,131

RESERVES

Before Royalties			
Gas (BCF)	187	201	205
Oil & NGLs (MSTB)	1,552	1,224	1,261
After Royalties			
Gas (BCF)	144	157	158
Oil & NGLs (MSTB)	1,196	903	936

PRESIDENT'S MESSAGE

ANOTHER RECORD YEAR FOR CZAR

On behalf of the Board of Directors, I am pleased to report that for the year ended December 31, 1993, Czar Resources achieved record financial and operating results.

With prudent management and sound strategic planning, the Company has not only survived the protracted downturn in the gas industry, but is very well positioned to take advantage of the gas industry upturn and will continue to expand its exploration, production and marketing of natural gas throughout North America.

The steady recovery in natural gas prices during 1993 permitted Czar to complete a number of financings and helped the Company experience a rapid turnaround in its financial position. Czar also reported the highest annual revenue and funds flow in its 19-year history.

Record production was also achieved during 1993 and the combination of increased funds flow in 1994 and an aggressive exploration program form the basis for future production increases.

A healthy operating environment, coupled with a renewed commitment for finding major natural gas reserves, places Czar in a position to accelerate growth through the 1990's.

Equity financing raises capital, eliminates debt

During 1993, Czar raised $18 million through the issue of common shares and share purchase warrants and the $10 million debenture outstanding was converted to common shares.

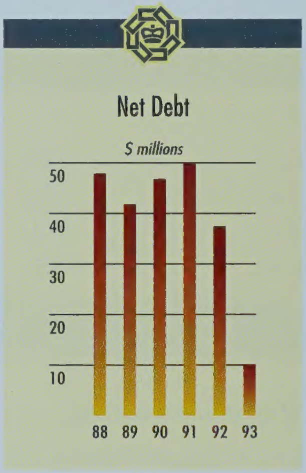
As a result, Czar reduced its long-term debt by $36 million, effectively eliminating the Company's bank debt. The refinancing initiatives greatly improved the Company's balance sheet, enhanced its financial security and freed up cash flow for exploration, development and land acquisitions.

Czar's financial strength, lean operating structure and large critical mass place the Company in a favourable position to boost capital spending and take advantage of its land inventory and proved undeveloped natural gas reserves.

To achieve its goals, the Company intends to increase its capital budget from $18.9 million in 1993 to $26 million in 1994.

Financial picture excellent, a springboard for greater growth

Czar's financial plan is based upon closely matching its expenditure level to funds flow. However, the Company's undrawn credit lines, totalling $25 million, could permit a major acquisition or other significant expansion of the Company's asset base.



Czar's geological and property acquisition staffs have been increased to achieve greater exploration and acquisition goals during 1994.

Joint venture agreement continues opening doors to opportunity

Czar's joint exploration and development agreement with two associated companies, Orbit Oil & Gas Ltd. and Canadian Frobisher Resources Ltd., continues to function very effectively and gives the Company sufficient critical mass to optimize new opportunities and maintain production control.

With the assets of all three companies managed by a common management team through a formal joint venture arrangement, aggregate cash flow is increased and corporate overhead costs are reduced.

In summary, the joint venture represents three groups of shareholders brought together with a common goal of forming a larger critical mass that is able to compete more effectively in the natural gas business. The relationship provides substantial benefits for all three parties.

More gas to be found as market conditions improve

Recent reports by the Geological Survey of Canada and Sproule Associates Limited suggest that substantial volumes of natural gas reserves remain within the Western Canadian sedimentary basin, predominately in the Devonian system. In addition, as outlined in the Survey report, approximately 60 percent of the natural gas in Canada is still undiscovered compared to 28 percent in the U.S. It is estimated that at the low prices that persisted for the past several years, only a minor portion of the remaining reserves would have been economic. However, at current prices, almost half of the estimated Devonian reserves can be economically developed.

Czar has recently launched an aggressive gas exploration program focused primarily on Devonian targets in British Columbia. In addition, the Company plans to rapidly expand its Alberta exploration effort in 1994 by targeting a number of horizons in the south and west of the province.

Innovative drilling technique taps into B.C. gas

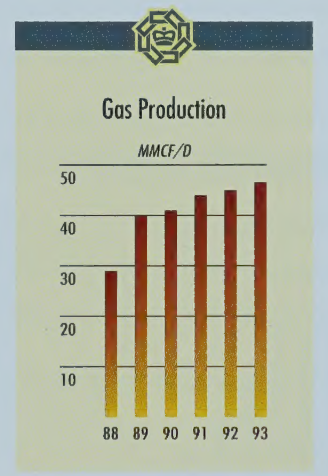
During the summer of 1993, Czar was involved in the drilling of a number of horizontal oil wells in the Birch area of northeastern British Columbia. Although several of the wells are producing at satisfactory rates, the current low oil prices have resulted in Czar postponing its plans to further develop its Birch acreage at the present time.

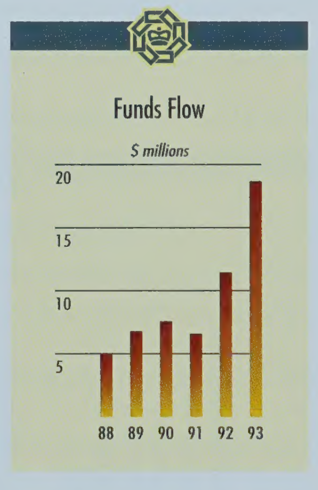
A benefit from the Birch program was that the technology gained in drilling and completing horizontal prospects, resulted in Czar drilling two horizontal gas wells in the Fort St. John area of British Columbia during 1993.

Based on encouraging results from these wells, the Company recently commenced a much larger exploration and development program in the Jean Marie formation in the Helmet area of northeastern British Columbia. The Company announced a substantial gas flow from the first well drilled in this program and has now completed drilling six additional horizontal gas wells in the area. Five of these wells are currently producing and further work in the area will be based upon a detailed evaluation of their production capabilities.

Production growth through connection of shut-in gas

Higher natural gas prices and deliverability contracts have encouraged Czar to review its substantial reserves of shut-in gas, primarily in the province of British Columbia. In the first quarter of 1994, Czar connected a number of shut-in gas wells in the Midwinter-Suhm area via an 18-mile extension of the Company's Helmet gas gathering system. The Company is reviewing its other areas with shut-in gas reserves with plans to connect them to market during 1994 and 1995.





Gas, oil production growth

During 1993, Czar's gas production increased to 46.5 MMCF/D. A production facility expansion in Helmet during the first quarter of 1994, which involved the connection of 12 wells, has increased production to approximately 56 MMCF/D.

The development of a number of Alberta and British Columbia oil pools increased Czar's oil and liquids production from 366 BBLS/D in 1992 to an average of 484 BBLS/D in 1993.

Optimism tempered by cautious, measured steps

As a result of deregulation and increasing demand, Western Canadian natural gas is a very attractive commodity, especially in U.S. markets where the availability of long-term supply is becoming a concern.

This marketing environment, driven by tighter supplies and rising consumption, has sparked greater competition among utilities and other large U.S. and Canadian customers for gas supply over medium and longer-term periods.

With more and more American industries and utilities using natural gas for both heating and electric power generation due to more stringent clean air laws, Czar is in an excellent position to expand its production volumes.

It is gratifying to see the enormous growth potential and the emergence of a strong market for Canadian natural gas finally materializing. Czar has been preparing for this scenario for several years.

Staff expansion to handle growth

The Company is well positioned for growth with a focus on expanding our production infrastructure to connect shut-in gas reserves, acquiring and developing large quantities of reserves and maintaining a diversified gas contract portfolio. To assist with these objectives, the Company added staff members Eugene Wasylchuk in the position of Acquisitions Manager and Kurt Larsen in the position of Manager, Gas Marketing and Regulatory Affairs, during 1993.

Czar's large natural gas reserve base, diversified portfolio of contracts and seasoned management team will ensure that the Company will continue to demonstrate excellent financial gains for its shareholders for several years.

The key to 1993 was completely refinancing the Company and continuing to market our gas effectively and profitably. I'm very optimistic about our growth potential in 1994. We'll continue to run our financial affairs carefully and optimally and we have the management team in place to effectively carry out this mandate.

Now we will turn our attention to locating new large pools of natural gas.

On behalf of the Board of Directors.

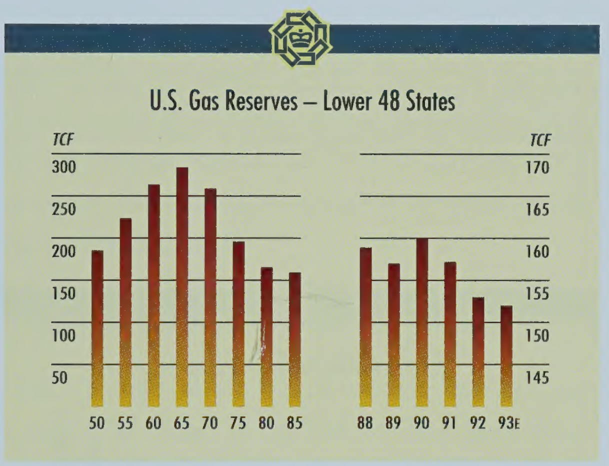
R.W. Lamond,
Chairman of the Board, President and CEO
March 31, 1994

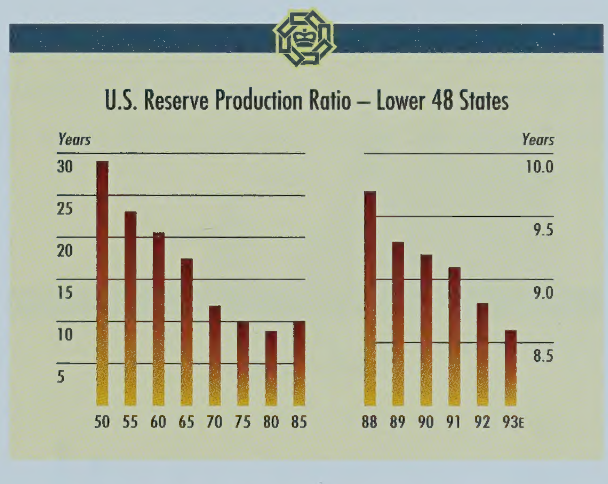
AN INDUSTRY POSITIONED FOR GROWTH

CZAR'S OPERATING ENVIRONMENT — NATURAL GAS

Czar's business plan is based on the premise that natural gas is a North American energy commodity in a mature phase of its development cycle and that the lower 48 United States gas supply is in an irreversible decline which will eventually result in a balanced gas market and sustained higher prices.

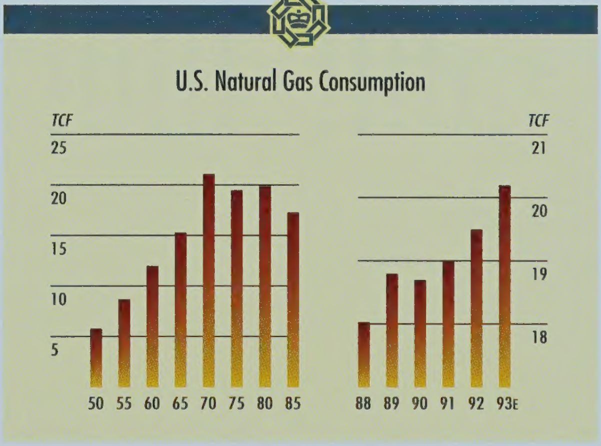
This premise has been confirmed by the steady decline of U.S. natural gas reserves since 1967 and the drastic reduction of the reserve production ratio during the past thirty years.





In the late 1970's, a combination of an over-regulated gas market, gas curtailments and high energy prices, resulted in huge investments in the gas industry and set up a decade long period of surplus gas and eroding prices.

The inevitable result of gas being sold at greatly reduced prices, compared with competing fuels, was a rebound in gas demand commencing in 1987.

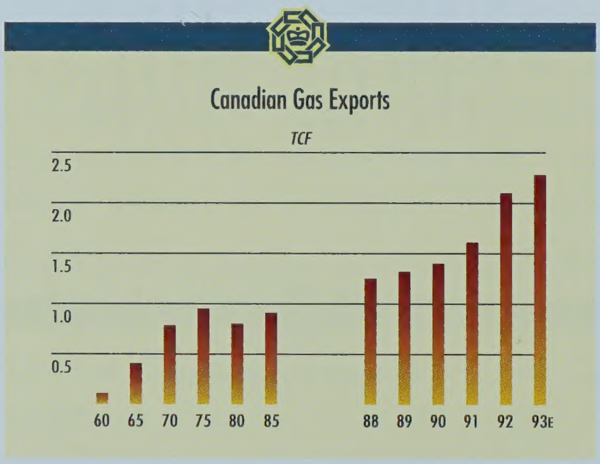


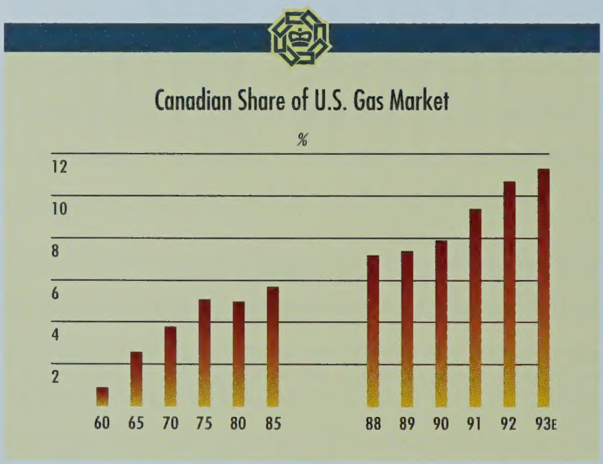
During the mid-1980's, several other factors contributed to increasing the amount of gas available to the market, including:

- the connection of several new producing basins;
- a tax subsidy for drilling coal seam gas;
- the deregulation of pipeline transportation; and
- the change in gas sales arrangements from long-term reserves based contracts to spot gas sales.

Despite these changes, by the end of the 1980's it was clear that the U.S. gas basins could not meet increasing U.S. consumption.

Of major significance to Canadian gas producers, a large portion of the incremental U.S. demand since 1987 has been met by expanded Canadian exports. This is illustrated by the fact that Canadian exports totalled one trillion cubic feet or six percent of the U.S. market in 1985 and by 1993, Canadian exports had increased to 2.2 trillion cubic feet or 11 percent of the U.S. market.

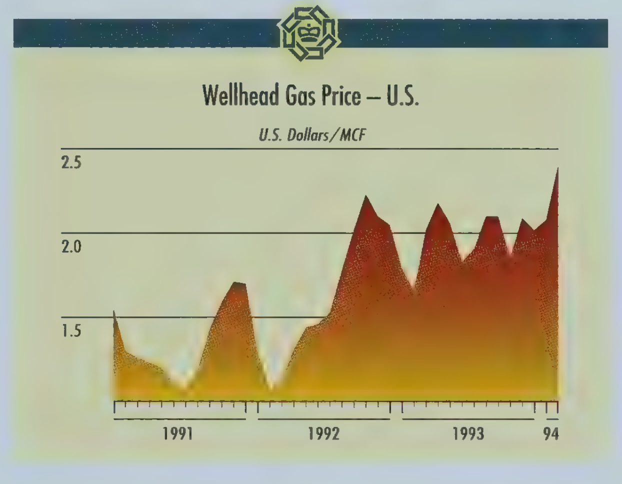




During the past 18 months, the Canadian natural gas industry has produced at maximum deliverability rates, a radical change from the prior thirty years during which gas sales were restricted and governed by long-term rate of take contracts.

The impact of sustained higher natural gas demand and maximum rates of production has resulted in gas prices in the U.S. and Canada trending upwards from approximately \$1.00/MCF in early 1992 to current pricing at the \$2.00 to \$2.50/MCF level.

It is highly likely that such pricing will be maintained during the current period of North American economic expansion, with the only significant caveat being the effect of the low price of crude oil. At current oil prices, there is some potential for fuel switching. However, on the strength of a balance of supply and demand, it is expected that current natural gas price levels will likely be maintained.



Corporate environmental policy statement

Czar is a responsible corporate citizen. The Company conducts its oil and gas exploration, development and production operations in a manner which safeguards the environment, in order to preserve the environment's nature and character for current and future generations. Along with Czar's goal of environmental leadership in the energy industry, the Company approaches its day to day business cognizant of the important balance between the public interests and the interests of the Company's shareholders.

A COMPANY POSITIONED FOR GROWTH

REVIEW OF OPERATIONS

Financial stability paves the way for growth

Czar's financial and operating results improved significantly during 1993. The improved balance sheet and financial ratios resulted from the proceeds from equity financings in 1992 and 1993 and from record production revenue, earnings, funds generated from operations, and higher natural gas prices.

Total revenue increased by 28 percent to $30.5 million, from $23.7 million in 1992.

Czar's earnings for the year increased by 157 percent to a record $9.5 million, or $0.18 per share. Funds flow from operations increased by 63 percent to $18.7 million, or $0.35 per share from $11.5 million or $0.31 per share in 1992.

The Company's financial ratios at the end of the year were the best in a decade, with a debt equity ratio of 0.18 to 1.0, fixed charge coverage of nine times and debt repayability from funds flow of less than six months.

Improved financial strength and a stronger natural gas market also paved the way for an increased corporate reinvestment rate for 1993. Capital spending increased to $18.9 million, or 100 percent of available funds flow, compared with $6 million, or 52 percent of funds flow for 1992.

Production and reserves heighten Czar's influence in industry recovery

Increased demand for natural gas throughout North America gave Czar the opportunity to produce its natural gas at record rates and improved prices during 1993.

With the industry currently operating at close to deliverability levels and with storage levels declining to record lows as the result of the severe winter, the Company anticipates that higher gas demand and prices will prevail through 1994.

Czar's natural gas production for 1993 increased to an average of 46.5 MMCF/D, compared with an average of 45 MMCF/D for 1992. Czar anticipates exiting the first quarter of 1994 at a production rate of 56 MMCF/D.

Natural gas prices increased throughout the year and averaged $1.69/MCF, a 17 percent increase from the $1.45/MCF average price in 1992.

Czar's gas production growth boosted by connection of shut-in gas

A substantial portion of Czar's natural gas reserves base is comprised of blocks of shut-in gas, predominately situated in the Helmet area of northeastern British Columbia. These pools have not been connected to market to date due to marginal economics, remoteness from existing pipelines and poor gas prices. Development work to delineate these pools was not undertaken due to the likelihood of lengthy delays in connecting these reserves to market.

Due to higher natural gas prices and the ability to market gas at deliverability rates, the Company reviewed a number of these pools and, in the first quarter of 1994, connected a substantial block of reserves in the Midwinter-Suhm area of British Columbia.

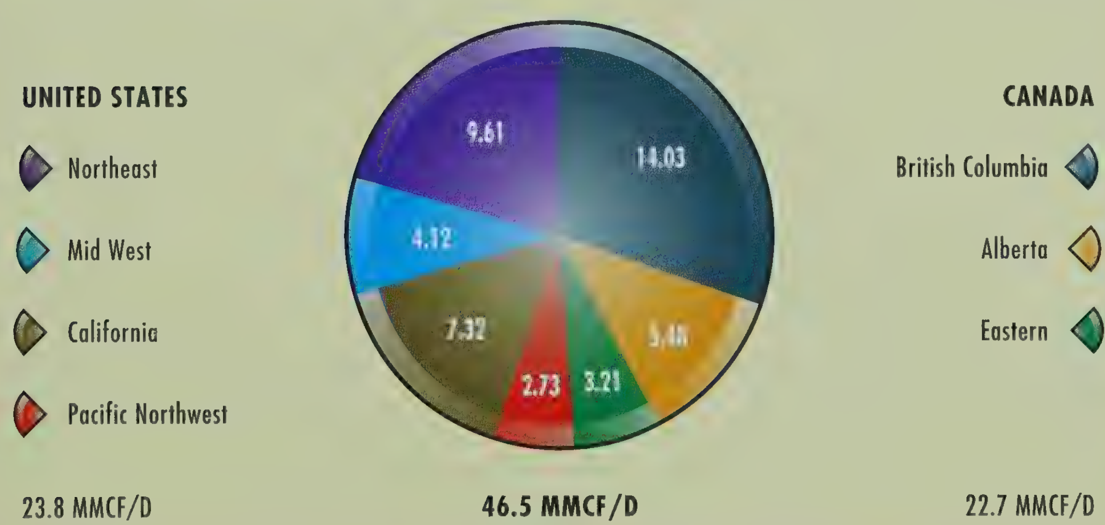
Czar laid 18 miles of 6-inch pipeline from the north end of the Helmet gas gathering system to the south portion of the Midwinter-Suhm pool and connected four existing wells to the system. In addition, two horizontal wells were drilled to increase deliverability from the pool, and they have been placed on stream.

In this project, Czar connected approximately 17 BCF of proved natural gas reserves, 6.5 BCF net to Czar, and increased deliverability from this pool by 16 MMCF/D, 5 MMCF/D net to Czar.

In addition to the reserves connected at Midwinter-Suhm, Czar currently controls 81.5 BCF of proved shut-in gas, of which 44.9 BCF is located in the Helmet area.

The Company is actively reviewing a number of similar shut-in pools with a view to conducting further development and delineation drilling early in the 1994/95 winter drilling season and connecting these reserves to market.

Distribution of Natural Gas Sales – Year Ended December 31, 1993



Czar's gas marketing approach adapts to changing times

Czar's natural gas marketing objectives are to market the Company's gas reserves at optimum prices and rates of take and to reduce business risk by marketing to geographically diverse end users.

Czar has concentrated on long-term export contracts, with secure transportation arrangements, to ensure access to premier North American markets and control priority access to transportation on a variety of gas distribution systems. However, as a result of recent moves to deregulate the pipeline systems and remove the merchant function from the pipeline companies, Czar is reappraising its natural gas marketing strategy and a greater portion of Czar's 1994 sales will be through shorter-term arrangements.

The Company's analysis is that this change in marketing strategy will provide the greatest flexibility and highest gas prices in today's marketplace.

During 1993, 51 percent of Czar's gas production was sold under long-term contracts to U.S. markets, 29 percent was sold under long-term contracts to Canadian markets and 20 percent was sold under short-term arrangements with Canadian and U.S. purchasers. Long-term contracts generally have terms of up to ten years, while short-term contracts have terms of less than two years.

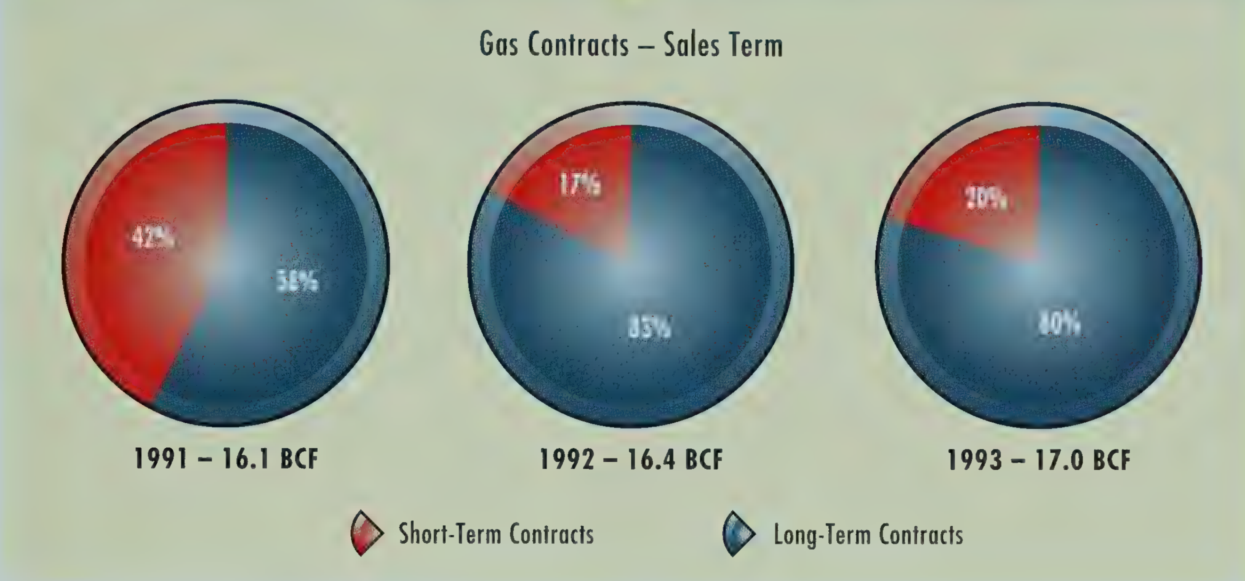
Renegotiating long-term contracts

After a protracted dispute relating to the insistence by the California Public Utilities Commission that Pacific Gas and Electric and its Canadian subsidiary, Alberta & Southern Gas Co. Ltd. terminate their long-term Canadian contracts, Czar and the other Canadian producers announced that they had decontracted their California natural gas reserves.

In consideration of this decontracting, Czar received a cash settlement of $2.6 million and was able to enter into a long-term exchange agreement which allows for the resale of 38 MMCF/D of production from the Helmet area of British Columbia at the AECO storage facilities in Alberta. As AECO is one of the most active transportation hubs in Western Canada, Czar's gas contracting flexibility for British Columbia gas reserves is significantly enhanced.

The Company is currently restructuring its KannGaz Producers Ltd. contract which is administered by Wascana Energy Ltd. Czar is presently negotiating a settlement which will result in the decontracting of a substantial amount of gas reserves dedicated to Tennessee Gas and is expected to result in a settlement payment to Czar in the order of $3.0 million.

With Czar's expanded natural gas marketing staff, a continuous review of North American markets will enable the Company to properly manage its gas portfolio and obtain optimum results.



EXPLORATION

Acquisition and exploration program ensures ongoing growth

Increased funds generated from operations along with a much improved natural gas industry environment encouraged an expansion of Czar's 1993 acquisition, exploration and development program. In 1993, Czar's capital budget increased to $18.9 million from $6 million in 1992.

During 1993, Czar participated in drilling 30 wells and completed 14 oil wells and seven gas wells. Nine wells were abandoned.

Multi-well development drilling programs at Gadsby in Alberta and at Flatrock and Birch in British Columbia resulted in an increased number of oil wells drilled during 1993. In addition, Czar participated in seven gas wells, three in British Columbia and four in Alberta.

At Birch, Czar drilled four horizontal oil wells with production ranging from 40 to 150 barrels per day. With low prevailing oil prices, the Company has put further development of its acreage in the Birch area on hold.

Two gas wells were drilled near Sinclair on the Peace River Arch which encountered shallow, high deliverability Cretaceous gas zones. The wells are expected to be placed on production later this year.

The Company's most significant exploration achievement during 1993 was the commencement of a horizontal gas drilling program. The first well, drilled at Fireweed, near Fort St. John, commenced production at 9 MMCF/D, is currently producing at a rate of 3.4 MMCF/D and has produced 700 MMCF/D in five months.

The first horizontal well drilled in Helmet, encountered lost circulation problems from a highly fractured zone. The well was placed on production at a rate of 10 MMCF/D and is currently producing approximately 4 MMCF/D.

In summary, during the past six months, the Company has drilled nine horizontal gas wells on two prospect types in northeastern British Columbia. It is expected that this horizontal technology will allow Czar to greatly increase deliverability from known reserves and will provide the tools to add substantial volumes of new gas reserves in areas where conventional wells have not been economically viable. The Company plans to closely monitor the production performance of its horizontal gas wells and on the basis of results, expects to rapidly expand its horizontal gas well drilling program.

This winter's drilling results have been highly successful in terms of reserves and deliverability additions. However, because most of the activities were completed in 1994, the results are not reflected in the Company's 1993 reserve report. In order to carry out Czar's expanded exploration and development program in 1994, the Company has added two geologists.

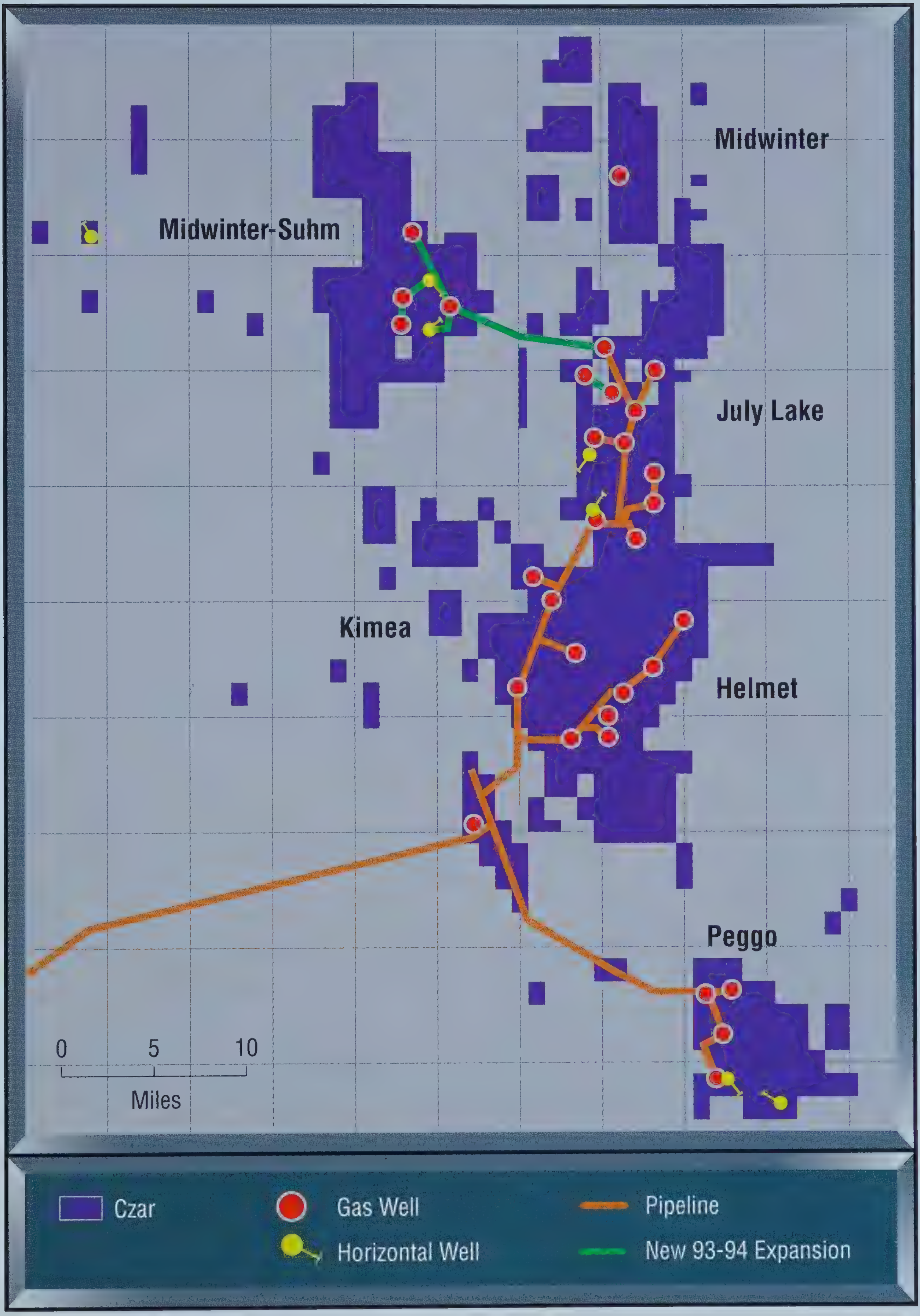
During 1993, the Company added approximately 7.1 BCF of natural gas reserves through a number of acquisitions and incurred $4.4 million on substantial purchases of land for future development. In 1994, Czar will continue to expand its natural gas asset base through an active acquisition and exploration program.

DRILLING RESULTS

	Gas Wells		Oil Wells		Dry Holes		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1993	**7**	**2.5**	**14**	**3.2**	**9**	**3.6**	**30**	**9.3**
1992	5	2.4	1	0.6	1	0.4	7	3.4
1991	9	5.5	0	0	4	1.4	13	6.9
1990	16	8.0	0	0	1	0.3	17	8.3
1989	15	9.3	0	0	3	2.0	18	11.3
1988	15	9.1	0	0	4	2.7	19	11.8
	67	36.8	15	3.8	22	10.4	104	51.0

HELMET AREA

1993-94 Program



CZAR'S MAJOR PRODUCING AREAS

AREA	LAND	WELLS	PRODUCTION
Helmet, British Columbia The Company's most significant asset is its interest in the Helmet area located in the extreme northeast corner of British Columbia.	172,536 reserve acres,[1] 62,655 acres net to Czar, to which reserves have been assigned and 44,262 net acres undeveloped.	25 producing gas wells, 7.92 wells net to Czar, and 36 shut-in gas wells, 12.28 wells net to Czar.	During 1993, natural gas production from the area averaged 17.1 MMCF/D net to Czar.
Gadsby, Alberta The Gadsby area, located approximately 30 miles east of Red Deer, is the Company's second largest producing gas field.	40,282 reserve acres, 26,306 acres net to Czar, with 7,588 net acres undeveloped.	58 producing gas wells, 25.9 wells net to Czar, and nine shut-in gas wells, 3.8 wells net to Czar, and five producing oil wells.	During 1993, natural gas production from the area averaged 5.6 MMCF/D net to Czar.
Monias, British Columbia The Monias area is located approximately 15 miles southwest of Fort St. John.	19,407 reserve acres, 4,943 acres net to Czar, with 2,915 net acres undeveloped.	13 producing gas wells, 1.9 wells net to Czar, and four shut-in gas wells, 1.4 wells net to Czar.	During 1993, natural gas production from the area averaged 3.4 MMCF/D net to Czar.
Drumheller, Alberta The Drumheller area is located 90 miles northeast of Calgary.	5,760 reserve acres, 3,584 acres net to Czar, with 2,915 net acres undeveloped.	Nine producing gas wells, 5.3 wells net to Czar, and one shut-in gas well.	During 1993, natural gas production from the area averaged 3.5 MMCF/D net to Czar.
Medicine River, Alberta The Medicine River area is located 15 miles west of Red Deer.	11,519 reserve acres, 2,204 acres net to Czar, with 1,680 net acres undeveloped.	11 producing gas wells, 2.2 wells net to Czar, and nine producing oil wells, 1.4 wells net to Czar, with four gas and one oil well shut-in.	During 1993, natural gas production from the area averaged 2.4 MMCF/D net to Czar.

RESERVES[2]	EXPLORATION
There are 218 BCF of proved natural gas reserves in the area, 76.2 BCF net to Czar.	As this is a remote winter access only area, the Company's exploration and development occurs during the winter drilling season. During the 1993-94 winter drilling season, the Company drilled seven horizontal natural gas wells, one vertical gas well and one dry hole in the area with five of the wells being placed on production by the end of the first quarter of 1994. With the additional capability from this area, the Company anticipates total gas production of 85 MMCF/D, 24 MMCF/D net to Czar, during 1994.
There are 34 BCF of proved natural gas reserves in the area, 13.1 BCF net to Czar.	During 1993, eight wells were drilled in the Gadsby area which resulted in seven oil wells, 1.9 net to Czar, and one dry hole. These oil wells have been placed on stream and are anticipated to produce 40 BBLS net to Czar during 1994. The Company is currently evaluating booster compression to accelerate production from the area. The Company anticipates gas production of 15.8 MMCF/D, 5.7 MMCF/D net to Czar, during 1994.
There are 79.8 BCF of proved natural gas reserves in the area, 18.9 BCF net to Czar.	During 1993, very little development work was done in the Monias area as reserves and production were maintained at expected levels. During 1994, some additional work will be done to expand production from this field. The Company anticipates 13.2 MMCF/D of production, 3.3 MMCF/D net to Czar, during 1994.
There are 12.6 BCF of proved natural gas reserves in the area, 4.8 BCF net to Czar.	During 1993, two additional wells were connected to the Company's production facilities. The Company is currently installing a gas plant to service all of the producing wells in the area. The plant has a capacity of 10 MMCF/D and is anticipated to be on stream in April 1994. The Company anticipates 12.8 MMCF/D of production, 3.6 MMCF/D net to Czar, during 1994.
There are 51 BCF of proved natural gas reserves in the area, 7.1 BCF net to Czar, and 3.9 million BBLS of oil and natural gas liquids, 394 thousand BBLS net to Czar.	During the first quarter of 1994, the Company acquired an 18.9 percent working interest in a gas plant at Sylvan Lake to improve the operating control over gas production in the area. Czar intends to increase its activity in this area during 1994. The Company anticipates 5.0 MMCF/D of production, 2.4 MMCF/D net to Czar, during 1994.

(1) *Reserve acres are lands with assigned reserves.*

(2) *All reserves are from the Fekete Report dated February 1994.*

RESERVES

During 1993, the Company produced 17 BCF of natural gas and 177,000 BBLS of oil and natural gas liquids. Reserve additions and adjustments increased gas reserves by 6 BCF and increased oil and natural gas liquids reserves by 517,000 BBLS. In summary, the Company's proved natural gas reserves were reduced by 11 BCF and oil and natural gas liquids increased by 340,000 BBLS during 1993.

Company reserves as at December 31, 1993, were evaluated by an independent engineering consultant, Fekete Associates Inc. According to the evaluation, Czar's proved and probable reserves totalled 187 BCF of natural gas and 1,552 MSTB of oil and natural gas liquids. Over 90 percent of the Company's reserves have been given proved status and almost one half of the proved reserves are currently producing.

During 1993, the Company's capital expenditure program began to change focus to reserve replacement and exploration. Previously, Czar focused on production facilities and placing proved reserves on stream.

The 1993 drilling program resulted in the addition of 4.3 BCF of natural gas and 392,000 BBLS of oil and natural gas liquids. Czar also added 7.1 BCF of natural gas and 78,000 BBLS of liquids through acquisitions.

Present value

The estimated future revenue from Czar's oil and gas reserves as determined by Fekete is based on an average natural gas price of $1.95/MCF in 1994, escalating to $2.30/MCF by 1998 and approximately four percent per year thereafter.

The current price estimates for 1994 are higher than those forecast in 1993 while the rate of future price escalation is lower. The change in price estimates results in an increase in the value of future revenue from the reserves from $214.5 million at December 31, 1992 to $287.5 million at December 31, 1993.

Using a discount rate of 15 percent, the discounted present value of estimated future revenue from the Company's reserves increased by 41 percent to $108.9 million at December 31, 1993, compared with $77.1 million at December 31, 1992.

OIL AND NATURAL GAS RESERVES AT DECEMBER 31, 1993 [1]

	Before Royalties		After Royalties	
	Natural Gas (BCF)	Oil & NGLs (MSTB)	Natural Gas (BCF)	Oil & NGLs (MSTB)
Proved Producing	80.5	1,331.3	62.4	1,029.0
Proved Non-Producing	90.9	200.8	69.5	151.3
Total Proved	171.4	1,532.1	131.9	1,080.3
Probable	15.1	19.6	11.9	15.7
Total Proved and Probable	186.5	1,551.7	143.8	1,196.0

ESTIMATED PRESENT VALUE OF FUTURE NET REVENUE

($ millions)	Undiscounted	10%	15%	20%
Proved Producing	$133.8	$ 82.2	$ 70.0	$ 61.4
Proved Non-Producing	124.1	48.3	34.0	24.8
Total Proved	257.9	130.5	104.0	86.2
Probable	29.6	7.7	4.9	3.3
Total Proved and Probable	$287.5	$138.2	$108.9	$ 89.5

(1) *Reserve information is from the Fekete Report dated February 15, 1994.*

RESERVES CONTINUITY

Natural Gas (BCF)

		Proved	Probable	Total
Reserves at December 31, 1991		188.5	16.3	204.8
Production 1992		(16.4)	–	(16.4)
Additions 1992	– Exploration	1.8	–	1.8
	– Acquisitions	14.2	0.8	15.0
	– Disposals	(2.2)	–	(2.2)
Revisions		(3.5)	1.6	(1.9)
Reserves at December 31, 1992		182.4	18.7	201.1
Production 1993		(17.0)	–	(17.0)
Additions 1993	– Exploration	4.3	–	4.3
	– Acquisitions	7.1	–	7.1
	– Disposals	–	–	–
	– Revisions	(5.4)	(3.6)	(9.0)
Reserves at December 31, 1993		171.4	15.1	186.5

Natural Gas Liquids (MSTB)

		Proved	Probable	Total
Reserves at December 31, 1991		757.1	37.7	794.8
Production 1992		(64.6)	–	(64.6)
Additions 1992	– Exploration	–	–	–
	– Acquisitions	10.7	–	10.7
	– Disposals	(3.5)	–	(3.5)
Revisions		2.1	(6.0)	(3.9)
Reserves at December 31, 1992		701.8	31.7	733.5
Production 1993		(77.6)	–	(77.6)
Additions 1993	– Exploration	42.3	–	42.3
	– Acquisitions	75.0	–	75.0
	– Disposals	–	–	–
	– Revisions	41.3	(12.1)	29.2
Reserves at December 31, 1993		782.8	19.6	802.4

Oil (MSTB)

		Proved	Probable	Total
Reserves at December 31, 1991		466.6	–	466.6
Production 1992		(69.5)	–	(69.5)
Additions 1992	– Exploration	120.7	–	120.7
	– Net Acquisitions	–	–	–
	– Disposals	–	–	–
Revisions		(27.0)	–	(27.0)
Reserves at December 31, 1992		490.8	–	490.8
Production 1993		(99.0)	–	(99.0)
Additions 1993	– Exploration	350.1	–	350.1
	– Net Acquisitions	3.4	–	3.4
	– Disposals	–	–	–
	– Revisions	4.0	–	4.0
Reserves at December 31, 1993		749.3	–	749.3

A PLAN FOR FUTURE GROWTH

CZAR'S CORPORATE STRATEGY AND GOALS

Excellent outlook

Czar is currently producing record volumes of natural gas for sale under a diverse portfolio of long-term and short-term natural gas contracts. The Company's financial condition is the best it has been in over a decade and its key financial ratios are excellent.

As a result of forecast economic growth and the increasing use of natural gas as an environmentally favoured fuel, the outlook for natural gas demand is excellent. With this in mind, Czar will continue to increase its capital reinvestment and natural gas reserves expansion program in 1994.

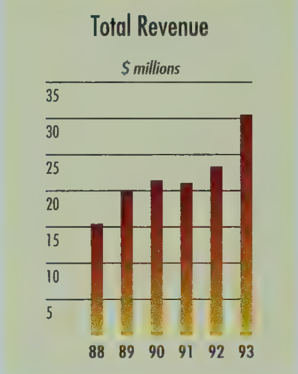
Human resources provide expertise to manage and sustain growth

Czar has developed a strong and versatile management team and a competent and dedicated staff.

Their resourcefulness and the Company's excellent financial position will allow Czar to proceed with its exploration and expansion programs with enthusiasm and confidence.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Czar's overall financial results improved significantly in 1993 primarily due to increased production volumes, higher natural gas prices and lower debt service costs.



Revenue

Total revenue increased by $6.8 million or 29 percent to $30.5 million for the year ended December 31, 1993, from $23.7 million in 1992. This increase includes $4.0 million of increased revenue primarily due to increased natural gas prices and $2.6 million which was received from Alberta & Southern Gas Co. Ltd. in consideration for decontracting British Columbia gas reserves. Higher oil and liquids production accounted for a further $0.5 million of increased revenue.

Production

Approximately 90 percent of Czar's revenue is derived from natural gas sales from pools in British Columbia and Alberta. During the year ended 1993, the Company's natural gas production increased by three percent to average 46.5 MMCF/D. Crude oil and natural gas liquids production increased by 32 percent to average 484 BBLS/D.

British Columbia

Fifty-five percent of Czar's 1993 gas production was produced in British Columbia with natural gas sales averaging 25.6 MMCF/D compared with 24.9 MMCF/D in 1992. The increase in natural gas sales was due to increased production in the Fireweed area where Czar completed a successful horizontal well in the fourth quarter. Increased production from the acquisition and the expansion of the Helmet gas gathering system completed early in 1993, offset production declines from the area and maintained production at 17.1 MMCF/D for the year. The construction of 18 miles of pipelines and the connection of 12 wells, five of which were drilled in the Helmet and Peggo areas during the winter drilling season, are anticipated to add approximately 11 MMCF/D to Czar's share of natural gas production during 1994.

In prior years, most of the Company's British Columbia gas reserves were dedicated to long-term contracts. However, as a result of the decontracting of gas reserves from Alberta & Southern Gas Co. Ltd., gas contracts are anticipated to be of shorter-term during 1994 and Czar is benefiting from the current higher prices.

Successful exploration activity in the Birch area of British Columbia resulted in three oil wells and together with new oil production from two wells drilled in the Flatrock area during 1993, increased the Company's oil production in British Columbia to average 176 BBLS/D from 126 BBLS/D in 1992.

Alberta

The remaining 45 percent of Czar's 1993 gas sales was produced in Alberta, where gas production averaged 20.9 MMCF/D compared to production in 1992 of 20.1 MMCF/D. During 1993, production rates declined in Czar's more mature production reservoirs at Gadsby and Wimborne. However, the decline in production was offset by increased

production at Drumheller and Medicine River, where new wells and facilities increased production by 2.1 MMCF/D.

In the past, the majority of the Company's natural gas in Alberta has been dedicated to long-term contracts. However, as a result of the effects of the completion of pipeline deregulation during 1993, a larger portion of Czar's gas will be sold in the short-term market. The higher long-term and short-term gas prices and expectation of continued pressure for more gas supply will provide an opportunity to realize higher gas prices in 1994.

Late in 1993, Czar participated in the drilling of seven successful oil wells in the Gadsby area of Alberta which resulted in an increase of oil production to the Company in the final quarter of 1993. Annual production in Alberta averaged 308 BBLS/D of oil and natural gas liquids for 1993, compared to 240 BBLS/D in 1992.

Product prices

Prices for natural gas rose during 1993 as supply and demand came into balance. The average gas price received by Czar for its production was $1.69/MCF in 1993 compared to $1.45/MCF in 1992. Increased prices accounted for over 80 percent of the increase in revenue. To date, in 1994, natural gas prices have been in excess of $2.00/MCF. The Company anticipates the average price to remain at this level for the balance of the year.

Oil prices declined during the year due to oversupply on world oil markets. The Company received an average price of $19.07/BBL for its oil production during 1993.

Expenses

Production expenses for 1993 were $7.8 million or $0.42 per equivalent MCF of production compared to $6.3 million or $0.36 per equivalent MCF of production for 1992. This increase was mainly due to an increase in repairs and maintenance performed on production facilities during the year.

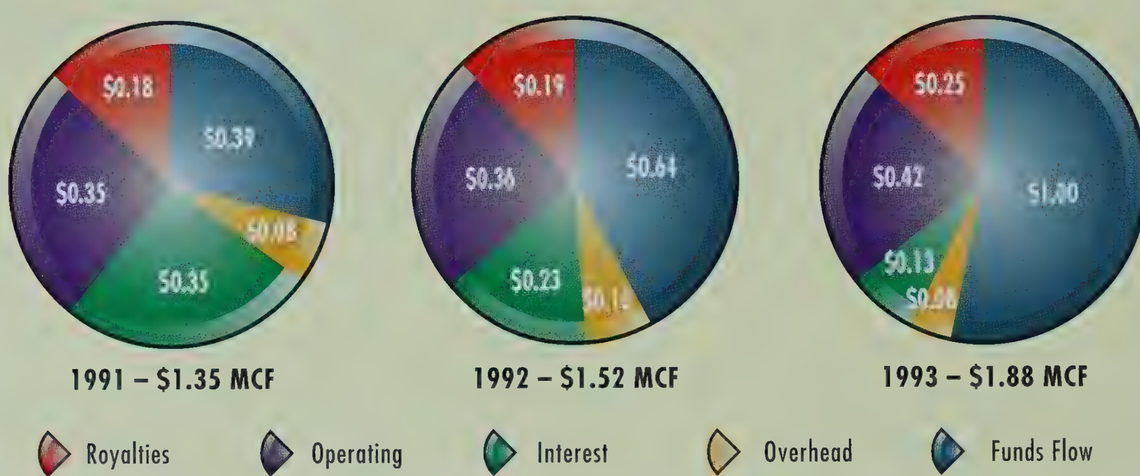
General and administrative costs decreased in 1993 to $1.6 million from $1.8 million in 1992. The Company is expecting an increase in general and administrative expenses in 1994 as additional staff and office space are required to accommodate the increased exploration and development activity.

The reduction of $36 million in long-term debt during the year resulted in interest expense declining by $1.7 million to $2.4 million. Interest expense for 1993 includes $1.1 million of unrealized costs relating to interest swap arrangements the Company still holds. With the Company's debt virtually eliminated, the reduction of interest expense in 1994 should add an additional $2 million to 1994 cash flow.

Royalties increased to $5.9 million or 18.5 percent of production revenue from $4.5 million or 17 percent of production revenue in 1992. This increase was the result of an increase in royalty rates in Alberta.

The amount Czar received under the Alberta Royalty Tax Credit Program remained relatively unchanged at $1.1 million. The Alberta Government has announced a change to the Alberta Royalty Tax Credit Program, effective January 1, 1995. In 1995 the amount of credit will be reduced by 25 percent.

Distribution of Revenue – Per Equivalent Unit



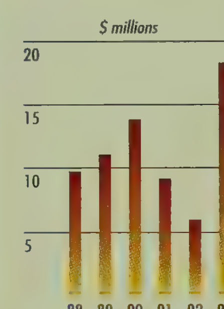
Depletion and depreciation

During 1993, the Company's proved natural gas reserves were reduced by 11 BCF and oil and natural gas liquids increased by 340,000 BBLS. In addition, the estimated capital cost required to produce the proved reserves increased by $6 million. As a result, the Company's depletion rate increased to $0.49 per equivalent MCF in 1993 from $0.44 per equivalent MCF in 1992.

Earnings and funds flow generated from operations

Czar's funds flow from operations increased 63 percent to $18.7 million or $0.35 per share in 1993, from $11.5 million or $0.31 per share in 1992. Earnings increased by 157 percent from $3.7 million or $0.10 per share in 1992 to $9.5 million or $0.18 per share in 1993. Increased production volumes, higher prices received for natural gas, lower debt service costs and the settlement with Alberta & Southern Gas Co. Ltd. were the main contributors to the increase in funds flow and earnings.

Capital Expenditures



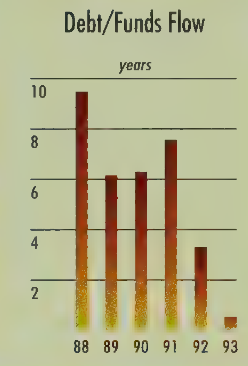
Capital expenditures

Capital expenditures on oil and gas activities rose significantly, from $6 million in 1992 to $18.2 million in 1993. Czar's capital expenditures were incurred on the acquisition of $5.2 million of land and geophysical data, on $4.7 million of facility

expansions and an $8.3 million drilling program. The Company is planning a $26 million capital program in 1994.

Liquidity and capital resources

During 1993, Czar was able to reduce its debt by $27.9 million as a result of the sale of equity and conversion of debentures to equity. This leaves the Company with no bank debt and $0.5 million of long-term capital leases. Czar has an unused line of credit of $25 million which currently provides the Company with significant financial flexibility. At year end, the Company had a working capital deficiency of $9.7 million.



Income taxes

Czar has not recorded any provision for current or deferred income taxes. Income tax deductions available to Czar, which were approximately $101 million at December 31, 1993 exceed the book value of its assets by approximately $33 million. The value of these tax deductions has not been recognized in the financial statements and therefore under current income tax laws and accounting procedures, and based on the revenue forecast contained in the Fekete Report and Czar's capital expenditure plans, Czar will not be required to record a current or deferred income tax provision for at least the next five years.

Sensitivity analysis

Czar's revenues, funds flow from operations and earnings are dependent upon changes in the economic environment within which it operates. As part of its normal operations, Czar endeavors to control variables which can be controlled at a reasonable economic cost. Czar's revenues are generated predominantly from natural gas sales. Therefore, Czar's revenue, funds flow from operations and earnings are most sensitive to changes in natural gas pricing.

	Change in Variable	Impact on Annual Funds Flow $000	$/Share[1]
Natural Gas			
Production MMCF/D	1.0	$ 500	$ 0.01
Price $/MCF	$ 0.10	$ 1,650	$ 0.03

(1) *Per share calculations are based on outstanding shares at December 31, 1993.*

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

(in thousands of dollars)	1993	1992
ASSETS		
Current Assets		
Cash	$ 5,172	$ 4,974
Accounts receivable	11,665	7,717
	16,837	12,691
Property, Plant and Equipment (note 2)	68,463	58,047
Deferred Financing Costs	–	268
	$ 85,300	$ 71,006
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 25,871	$ 13,707
Current portion of long-term debt	648	948
	26,519	14,655
Long-Term Debt (note 3)	462	26,046
Convertible Debentures (note 4)	–	9,998
Site Restoration Provision	1,498	1,018
SHAREHOLDERS' EQUITY		
Capital Stock (note 5)	42,366	14,338
Retained Earnings	14,455	4,951
	56,821	19,289
	$ 85,300	$ 71,006

Approved by the Board:

, Director

, Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31

(in thousands of dollars except per share amounts)	1993	1992
Revenue		
Production	$ 34,502	$ 29,333
Transportation costs	(2,742)	(2,698)
Royalties	(5,887)	(4,525)
Alberta royalty tax credit	1,092	1,022
Net Production Revenue	26,965	23,132
Processing revenue	910	572
Other	2,588	18
	30,463	23,722
Expenses		
Production	7,799	6,320
General and administrative	1,581	1,833
Interest on long-term debt	2,354	4,103
Depletion and depreciation	9,225	7,765
	20,959	20,021
Net Earnings	9,504	3,701
Retained Earnings at Beginning of Year	4,951	1,250
Retained Earnings at End of Year	$ 14,455	$ 4,951
Per Common Share		
Net earnings	$ 0.18	$ 0.10
Fully diluted net earnings	$ 0.16	$ 0.10

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

YEARS ENDED DECEMBER 31

(in thousands of dollars except per share amounts)	1993	1992
Cash Provided by (Used for):		
Operating Activities		
Net earnings	$ 9,504	$ 3,701
Depletion and depreciation	9,225	7,765
Funds flow from operations	18,729	11,466
Change in non-cash working capital items related to operations	8,216	235
	26,945	11,701
Financing Activities		
Bank credit facility	(25,094)	(6,555)
Capital lease obligations	(790)	(684)
Issue of common shares for:		
Cash (net of issue costs of $992)	18,089	5,688
Conversion of debenture	9,939	–
Issue of Special Warrants (net of issue costs of $98)	–	912
Debenture	(9,998)	–
	(7,854)	(639)
Investing Activities		
Property, plant and equipment	(18,872)	(5,974)
Site restoration costs	(21)	(114)
	(18,893)	(6,088)
Increase in Cash	198	4,974
Cash at Beginning of Year	4,974	–
Cash at End of Year	$ 5,172	$ 4,974
Per Common Share		
Funds flow from operations	$ 0.35	$ 0.31
Fully diluted funds flow from operations	$ 0.31	$ 0.29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tabular amounts in thousands of dollars unless otherwise indicated

1. Accounting Policies

(a) The consolidated financial statements include the accounts of Czar Resources Ltd. and its subsidiary company, which is wholly-owned.

(b) Petroleum and Natural Gas Operations

(i) The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized by cost centre. A separate cost centre is established for each country in which the Company operates. The Company presently operates only in Canada. Costs include land acquisition costs, geological and geophysical expenditures, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, related overhead expenditures and capitalized interest related to major development projects. The costs in each cost centre, together with estimated future capital costs relating to proved reserves and site restoration costs, are depleted using the composite unit of production method based upon estimated proved reserves after royalties. Crude oil reserves are converted to equivalent units of natural gas based on the relative energy content of each product.

The Company provides for an estimate of future site restoration costs based on engineering estimates of anticipated costs to restore well sites and facilities as part of the depletion provision. The provision for these costs is recorded as a long-term liability.

(ii) Full Cost Ceiling Test

The net book value in each cost centre which can be carried forward for amortization against revenues of future periods is limited to an amount equal to the estimated future net revenues from proved reserves, based on current prices and costs, plus the lower of cost or estimated fair value of unproved properties. The aggregate net book value of all cost centres less deferred income taxes and the provision for site restoration costs is limited to the estimated future net revenues from proved reserves plus the lower of cost or estimated fair value of unproved properties less estimated future general and administrative expenses, financing costs, income taxes and future site restoration costs.

(iii) All of the Company's exploration and development activities related to petroleum and natural gas are conducted with others. The Company records only its proportionate interest in such activities.

(c) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the composite unit of production method based on estimated proved reserves after royalties of each cost centre. Depreciation of other equipment is provided at rates which are estimated to amortize the cost of the assets over their useful lives.

(d) Interest Swap Arrangements

Interest swap arrangements are valued at quoted market prices and gains and losses are recognized in the statement of earnings.

(e) Net Earnings and Funds Flow Per Common Share

Net earnings and funds flow per common share are calculated using the weighted average number of common shares outstanding during the year of 53,184,171 (1992 – 36,715,805).

2. Property, Plant and Equipment

	1993	1992
Petroleum and natural gas leases and rights including exploration, development and equipment thereon at cost	$117,072	$ 98,378
Other	1,556	1,378
	118,628	99,756
Accumulated depletion and depreciation	(50,165)	(41,709)
	$ 68,463	$ 58,047

Property, plant and equipment include overhead expenditures, which are incurred in the exploration for and development of oil and gas properties, amounting to $144,000 for the year ended December 31, 1993 (1992 – $259,000).

3. Long-Term Debt

	1993	1992
Bank credit facilities (i)	$ –	$ 25,094
Obligations under capital leases (ii)	1,110	1,900
	1,110	26,994
Less current portion	648	948
	$ 462	$ 26,046

(i) Bank Credit Facilities

The Company has a revolving production loan facility in the amount of $25,000,000 (1992 – $35,500,000). This credit facility bears interest at prime plus 1/8%. The credit facility is subject to an annual review.

The credit facility is secured by a fixed charge debenture on certain assets and a floating charge debenture on all assets of the Company and assignments of accounts receivable and certain petroleum and natural gas properties and revenue interests therein.

(ii) Obligations under Capital Leases

Future minimum lease payments are as follows:

1994	$ 740
1995	475
	1,215
Less amounts representing interest averaging approximately 12% per annum	105
	1,110
Less current portion	648
	$ 462

4. Convertible Debentures

The unsecured convertible debentures had an interest rate of 8.75% per annum and had a maturity date of June 15, 1995. The debentures were convertible into common shares at the option of the holder at any time prior to maturity at a conversion price of $1.66 per common share. The debentures were redeemable at an amount equal to 102% of par (reducing by 1% on July 1, 1993 and 1994) plus accrued interest if the common shares traded at least at 125% of the conversion price for 20 consecutive trading days.

In June 1993, the Company gave notice of its intention to redeem any outstanding debentures on July 22, 1993 at a price equal to 101% of the outstanding principal plus accrued interest. Prior to that date, $9,939,000 of the debentures were converted to 5,987,939 common shares and $59,000 were redeemed by the Company.

5. Capital Stock

(a) Authorized Capital Stock

10,000,000 First preference shares issuable in series

10,000,000 Second preference shares issuable in series

Unlimited number of common shares

(b) Issued Common Shares and Special Warrants

	Number of Shares	Amount
Common Shares		
Balance December 31, 1991	36,445,128	$ 7,738
Employee savings plan	219,948	144
For cash: on exercise of options	40,000	22
through rights offering	6,111,729	5,522
Balance December 31, 1992	42,816,805	13,426
Employee savings plan	87,406	152
For cash: on exercise of options	1,080,100	623
on public offerings	13,000,000	17,309
on exercise of warrants	4,373	5
Conversion of debentures	5,987,939	9,939
Conversion of Special Warrants	1,010,000	912
Balance December 31, 1993	63,986,623	$ 42,366
Special Warrants (i)		
Balance December 31, 1992	1,010,000	$ 912
Conversion to common shares	(1,010,000)	(912)
Balance December 31, 1993	–	$ –

(i) The Special Warrants were issued to a significant shareholder on December 23, 1992. The warrants were exercisable into units consisting of one common share and one common share purchase warrant upon the filing of a prospectus by the Company in 1993.

(c) Common Share Options

At December 31, 1993, directors, officers and employees held options to purchase 1,708,100 (1992 – 2,686,500) common shares of the Company at exercise prices ranging from $0.56 to $1.94. These options expire at various dates to 1998.

(d) Employee Savings Plan

The employee savings plan provides for employee savings of up to 5% of salary which is matched by the Company in the form of common shares of the Company. During the year, employees became entitled to receive 87,406 common shares (1992 – 219,948).

(e) Common Share Purchase Warrants

The Company has 12,114,782 outstanding common share purchase warrants which entitle the holders to purchase 6,057,391 shares at $1.25 per share until December 30, 1994.

6. Income Taxes

At December 31, 1993, the Company had approximately $100,968,000 of tax deductions available to reduce future years' income for tax purposes. The benefit of the excess of the amount over the net book value of the related assets has not been reflected in the financial statements.

The following table reconciles the expected tax provision based on current combined federal and provincial rates (44%) to the actual tax provision.

	1993	1992
Expected income tax provision	$ 4,182	$ 1,628
Increase (decrease) in expected tax provision:		
Non-deductible provincial royalties and lease rentals	1,834	1,443
Other non-deductible items	79	79
Non-deductible depletion	224	225
Alberta royalty tax credit	(480)	(450)
Resource allowance	(1,805)	(1,475)
Utilization of prior years' losses	(4,034)	(1,450)
Actual income tax provision	$ –	$ –

7. Related Party Transactions

Canadian Frobisher Resources Ltd., the major shareholder of which is a director and officer of the Company, participated with the Company in essentially all its exploration, development and acquisition operations pursuant to a joint venture agreement. Canadian Frobisher earns 85% of its participation in the Company's interest in properties by paying 100% of its participation in the Company's share of the costs of drilling and completion operations. During the year ended December 31, 1993, Canadian Frobisher incurred costs of $4,753,000 (1992 – $1,104,000) pursuant to the agreement and at December 31, 1993 there was a receivable from Canadian Frobisher of $500,753 (1992 – payable of $55,000).

Effective May 1, 1989, the Company entered into a joint venture and management agreement with Orbit Oil & Gas Ltd., a corporation with certain common directors, officers and shareholders, whereby the Company and Orbit share overhead costs and jointly participate in new exploration, development and acquisition activities. The Company is reimbursed for a portion of the overhead costs based upon the relative revenue and capital expenditures of the two companies. All oil and gas activities conducted on properties acquired subsequent to May 1, 1989, are conducted with Orbit in a sharing ratio established annually. At December 31, 1993 there was a receivable from Orbit of $2,520,000 (1992 – $1,367,000).

Intercompany balances with Canadian Frobisher and Orbit are settled on a monthly basis.

MANAGEMENT REPORT

The management of Czar Resources Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and where necessary, include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

KPMG Peat Marwick Thorne, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and meets regularly with management and KPMG Peat Marwick Thorne to discuss internal controls, accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

April 12, 1994

President

Chief Financial Officer

AUDITORS' REPORT

We have audited the consolidated balance sheets of Czar Resources Ltd. as at December 31, 1993 and 1992 and the consolidated statements of earnings and retained earnings and source and use of cash for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Calgary, Alberta
March 15, 1994

Chartered Accountants

CORPORATE INFORMATION

Board of Directors

Robert W. Lamond [1,2]
Chairman of the Board
President and CEO
of the Company
Calgary, Alberta

Charles A. Teare
Executive Vice President
and CFO of the Company
Calgary, Alberta

Allan R. Twa
Partner
Burnet, Duckworth & Palmer
Calgary, Alberta

Brian C. Bentz [1,2]
Executive Vice President
Simons International Ltd.
Vancouver, B.C.

Donald M. Deacon
Independent Businessman
Charlottetown, P.E.I.

Ashley G. Down [2]
Director
M & G Group PLC
London, England

Rick Orman [2]
Partner, Kappa Energy
Investments Inc.
Calgary, Alberta

Gary M. Pittman [1]
Financial Analyst
Energy Recovery
Management Inc.
Chevy Chase, Maryland

[1] *Audit Committee*
[2] *Compensation Committee*

Officers and Senior Personnel

Robert W. Lamond
Chairman, President
and CEO

Charles A. Teare
Executive Vice President
and CFO

P. Richard Ewacha
Vice President, Production

Paul M. Boechler
Controller

Wayne T. Radcliffe
District Land Manager

Herbert J. Visscher
Exploration Manager

Donald K. Clark
Production Manager, B.C.

Philip W. Payzant
Production Manager, Alberta

Eugene Wasylchuk
Acquisitions Manager

Kurt Larsen
Manager, Gas Marketing and
Regulatory Affairs

Kumar Mendis
Accounting Manager

M. Lucy Ionescu
Manager, Reservoir Engineering

Russ M. Sych
Sr. Production Foreman, Alta.

Warren M. Smith
Sr. Production Foreman, B.C.

Corporate Office

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Fort St. John
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Alberta
Wimborne
Tel: (403) 631-2121
Rimbey
Tel: (403) 843-3355

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Auditors

KPMG Peat Marwick Thorne
Calgary, Alberta

Registrar & Transfer Agent

Montreal Trust of Canada
Calgary, Alberta

Stock Listings

The Toronto Stock Exchange
Trading Symbol

Common Share	CZR
Warrants	CZR.WT.A

Reserve Engineering Consultants

Fekete Associates Inc.
Calgary, Alberta

ANNUAL INFORMATION FORM

Copies of the Company's Annual Information Form as filed with the Ontario Securities Commission are available upon written request free of charge to all shareholders of record and beneficial owners of shares. Requests should be directed to the Corporate Secretary at the Company's head office.

ABBREVIATIONS

Throughout this report, standard oil and gas abbreviations have been used. Their explanation is as follows:

BBLS	Barrels
MSTB	Thousand Stock Tank Barrels
MMCF/D	Million Cubic Feet Per Day
BBLS/D	Barrels Per Day
MCF	Thousand Cubic Feet
MMCF	Million Cubic Feet
BCF	Billion Cubic Feet
TCF	Trillion Cubic Feet
NGLs	Natural Gas Liquids

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